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February 20, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of Ex Parte Communication;
Broadband PCS C and F Block Installment
Payment Restructuring; WT Docket No. 97-82

Dear Ms. Salas:

In accordance with Section 1.1206 of the Commission's rules, please put the attached letter into the record for the above-referenced docket. Please direct any questions concerning this matter to me at (212) 778-2356.

Sincerely,

Attachment

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Prudential Securities Incorporated
One New York Plaza, New York, NY 10292
(212) 778-1000

Via Fax: (202) 418-2802

February 12, 1998

Paul E. Misener
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

re: PCS C-Block Reconsideration

Dear Paul:

George Alex and I would like to thank you for taking time out yesterday to hear our views on the C-Block reconsideration. We wanted to follow up yesterday's meeting, however, on one important question which you raised: whether the C-Block companies and their investors have suffered because of the difficulties encountered in the licensing and financing process. We believe that the C-Block licensees have already suffered in very significant ways on two primary accounts.

1. *Loss of investment value, loss of principal.* C-Block investors have lost value on their investments and are legitimately concerned about the loss of some or all of the principal on their investments. We are aware that several C-Block investors, including some NextWave investors, have either written down, or completely written off, their investments. These actions have been taken because (i) the C-Block companies have been stalled in obtaining the financing necessary to execute their build-out plans, and (ii) doubts about the value of the C-Block licenses in light of current trading levels of comparable publicly-traded PCS companies and the D, E and F-Block auction results. In the case of NextWave, these investors include pension funds, as well as educational and financial institutions, including Prudential itself. The write-off of half of NextWave's private capital equates to the loss of more than $300 million in cash investments made by these investors.

Although the losses have the potential to be reversed in the event that the stock ultimately appreciates in value, this will probably not happen for a long time, at which point the return on investment will be substantially below the types of returns anticipated by private equity investors. Additionally, to the extent that the Commission proceeds with its plan to penalize the C-Block licensees under the disaggregation and pre-payment options, investor write-downs are likely to increase as the value of their remaining assets is further reduced and the hope for recovery on the value of their stock is further diminished.

The problems for C-Block licensees are further exacerbated by the fact that, due to delays in business plan implementation (described below) and an overall negative perception of the C-Block, these companies have had to issue more equity at lower prices than originally anticipated in order to raise the financing necessary to weather the delays and proceed with their build outs. This manifests itself in the form of dilution to the original (non-control group) investors. All other things being equal, as the number of shares of a company increases, the value of each share declines. Dilution not only affects existing investors, but also has an impact on the investment decisions for new investors.

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2. *Delays in business plan implementation due to licensing and financing difficulties.* Secondly, the C-Block licensees have suffered due to delays in receiving their licenses and delays in obtaining financing. As we pointed out in our previous meeting, the delay in licensing coincided with a significant downturn in the public market values for wireless stocks, including PCS stocks. The nearly-two year delay since the close of the C-Block auction has given incumbent cellular and A and B-Block PCS licensees a very significant and irrevocable competitive advantage in launching their networks and marketing subscribers without competition from C-Block entrants and their resellers. This competitive advantage takes several forms by allowing incumbents to (i) keep pricing artificially high in the absence of competition, (ii) tie up production capacity for infrastructure equipment and handsets, (iii) establish distribution channels without having to compete with other entrants, (iv) establish branding more readily, (v) acquire attractive "early adopter" subscribers and (vi) reduce marketing costs. Although difficult to quantify, these all translate into significant disadvantages for C-Block upstarts which we believe may never be fully overcome by C-Block companies. Given the FCC's original intention in establishing the C-Block, to foster the entrance into PCS by small business and entrepreneurs, I trust that this is not the result the FCC anticipated.

We believe that the proposed penalties for C-Block licensees are unwarranted. Imposing such penalties deters investment by increasing write-offs of the original investments and by permanently stigmatizing the C-Block licensees. It also limits the ability of the C-Block licensees to raise additional financing by effectively reducing their equity bases. We believe that imposing further penalties on the C-Block licensees represents a substantial victory for those most interested in seeing the C-Block spectrum return to auction - incumbent cellular and PCS providers. The re-auction not only bolsters their first-mover competitive advantages, but also creates a new opportunity to acquire and/or control spectrum for their own accounts. In granting 10 year financing for up to 90% of the license bid amounts on very favorable terms, the FCC surely realized in the creation of the C-Block that the licensees would be start-up companies and small businesses without substantial capital resources and which would have to rely on the capital markets to satisfy their obligations to the FCC. To penalize these companies because of their inability to access the capital markets not only appears to be unnecessarily harsh, but also contrary to the FCC's original intention in establishing the C-Block.

I hope you will feel free to contact me with your feedback on these matters, and look forward to continuing our dialogue.

Very truly yours,

Michael Elling
Managing Director